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117th
**ANNUAL
REPORT**
for the year ended September 30, 1965

THE
Consumers' Gas
COMPANY



Toronto's new City Hall, officially opened in September, 1965, is a symbol of the dynamic growth which is taking place within the areas served by Consumers' Gas. Throughout Metropolitan Toronto, new housing, high-rise apartments, shopping plazas, industrial developments and an expanding network of improved highways and expressways are evidence of unprecedented progress, in which Consumers' Gas plays a vital role in the life of the community.



The cleanliness and efficiency of the Natural Gas flame is gaining an increasing acceptance in all market areas for residential, commercial and industrial applications.

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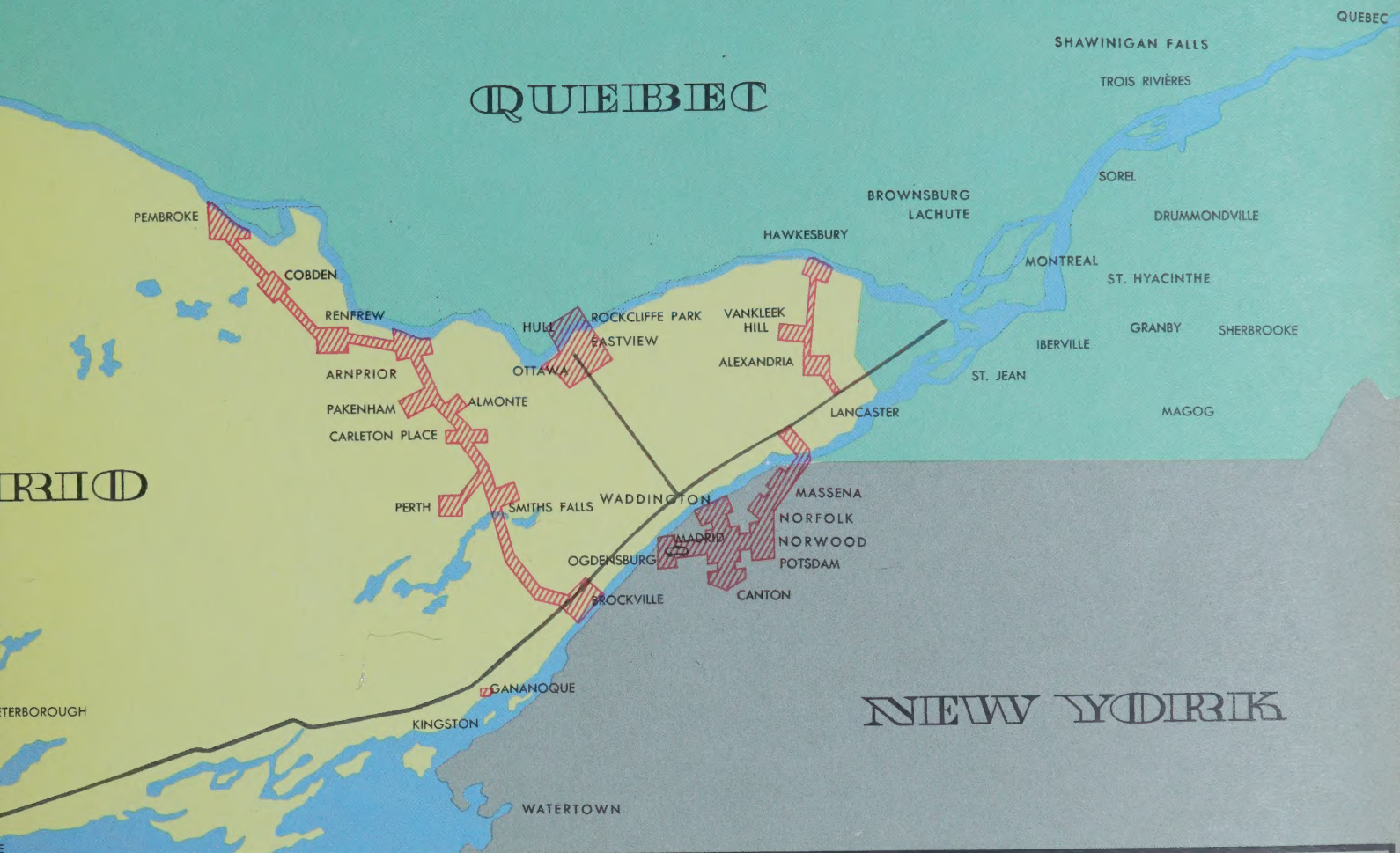
The Consumers' Gas Company • 19 Toronto Street • Toronto



Consumers' Gas

AND SUBSIDIARIES
SERVICE AREA





The Consumers' Gas Company

Directors

A. L. BISHOP*

*Chairman of the Board—The Consumers' Gas Company
President and Director—Provincial Gas Company Limited
Vice-President—Canada Permanent Trust Company
Director—Canadian Imperial Bank of Commerce
Director—The Consolidated Mining and Smelting Company of Canada, Limited*

OAKAH L JONES*

*President and General Manager—The Consumers' Gas Company
Vice-President and Director—Provincial Gas Company Limited
Director—Eastern & Chartered Trust Company*

J. A. NORTHEY*

*Chairman of the Board—Telfer Paper Box Company Limited
Chairman of the Board—Zurich Life Insurance Company of Canada
Director—Shaw & Begg Limited*

J. K. MACDONALD*

*President—Confederation Life Association
Director—Dominion Scottish Investments Limited
Director—Canada Permanent Trust Company*

A. R. POYNTZ

*Chairman of the Board & President—The Imperial Life Assurance Company of Canada
Director—M.E.P.C. Canadian Properties Limited
Director—Gelco Enterprises Limited*

M. GEARY

*Secretary and Assistant Treasurer—The Consumers' Gas Company
Assistant Secretary and Assistant Treasurer—Provincial Gas Company Limited*

G. E. CREBER

*Director—Eddy Paper Company Limited
Director—George Weston Limited
Director—The Canada Trust Company
Director—Burns Foods Limited
Director—Union Oil Company of Canada Limited*

W. H. ZIMMERMAN, Q.C.

*Director—Commonwealth International Corporation Limited
Executive Vice-President & Director—Canadian Channing Corporation Limited
Director—Scythes and Company Limited
Director—Litho-Print Limited*

HON. T. D'ARCY LEONARD, Q.C.

*Vice-President—Canada Permanent Mortgage Corporation
Director—Canada Permanent Trust Company
Director—Canadian Industries Limited
Director—Toronto & London Investment Company Limited
Chairman of the Board—Triarch Corporation Limited*

W. B. C. BURGOYNE

*President and Publisher—The St. Catharines Standard
President—The Niagara District Broadcasting Company Limited
Member—St. Catharines Advisory Board, The Canada Trust Company
Director—Canadian General-Tower Limited*

R. H. CARLEY

*Partner—Carley, Lech & Fitzpatrick
President—Colonial Weaving Company Limited*

NOAH TORNO

*Director—Cemp Investments (Ontario) Limited
Director—Distillers Corporation-Seagrams Limited
Director—The Canada Trust Company*

J. WILLIAM HORSEY

*Chairman Emeritus—Salada Foods Limited
Vice-President and Director—Canadian Imperial Bank of Commerce
Director—Crown Trust Company*

HIS WORSHIP THE MAYOR OF TORONTO

PHILIP G. GIVENS, Q.C. (EX-OFFICIO)

*Executive Committee

Officers and Department Heads

A. L. BISHOP, M.E.I.C.

Chairman of the Board

OAKAH L JONES

President and General Manager

M. GEARY

Secretary & Assistant Treasurer

F. W. HURST

Vice-President, Treasurer & Assistant Secretary

J. C. MCCARTHY

Vice-President & General Sales Manager

W. M. KELLY

Vice-President & General Superintendent of Distribution

G. W. CARPENTER

Vice-President & General Superintendent of Gas Supply

J. M. GIFFORD

Vice-President—Eastern Area

C. R. BREWER

Assistant to the President, Area Office Co-ordinator

Ottawa Executive Board:

A. BETCHERMAN, Chairman

ORIAN LOW, Q.C.

OAKAH L JONES

R. L. GOODENOUGH

Comptroller

E. S. HOWARD

Vice-President & General Manager, Provincial Gas Company Limited

C. H. RAHN

President, Grimsby Natural Gas Company Ltd.

L. MASSÉ

President, Société Gazifère de Hull, Inc.

D. VIEN

Vice-President and Secretary, Société Gazifère de Hull, Inc.

H. J. FRANK

Chairman of the Board, St. Lawrence Gas Company, Inc.

D. LINDSTEDT

Vice-President and General Manager, St. Lawrence Gas Company, Inc.

A. T. LEWIS, Q.C.

R. N. SEGUIN, Q.C.

Report to the Shareholders

TO OUR SHAREHOLDERS:

Your Company has continued to make good progress during this past year.

Our customers received additional voluntary rate reductions; our employees received wage and salary increases; shareholders received increased dividends on their money invested in the Company; and all levels of government received increased tax revenues from your Company.

Operating revenues this year were \$92,408,000, an increase of \$13,919,000 over 1964. Consolidated net income from which preferred and common returns are paid to shareholders on their investment and a portion retained for contingent and emergency items, increased \$2,126,000 over 1964. Consolidated earnings per common share amounted to 68¢ in 1965 compared with 55¢ in 1964.

Your Company continues to pay special attention to the control of its expenditures for all purposes and is receiving the co-operation of employees in all areas of the Company and this year's results reflect their continued successful efforts.

The Company borrowed \$15,000,000 in United States funds in February 1965 to take advantage of favorable market terms but intends to continue to do the majority of its financing in Canada.

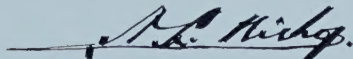
We are very pleased to note a continued increase in the number of common shareholders who as of September 30, 1965 totalled 21,589 compared with 7,025 in 1955.

I would call your attention to the item added directly to retained earnings this year of \$809,000 representing a non-recurring excess of net sale price over book value resulting from the sale of land previously acquired for use in your Company's gas operations but now no longer needed for current or future operations.

Your Company is particularly pleased with the results of its previously reported gas storage operations.

In connection with urban development in our service area, the increase of apartment and town house living has been very noticeable and your Company is participating in this market. There has also been a very noticeable increase in the awareness of public officials and concern on their part on correcting air pollution, and natural gas with its cleanliness is being increasingly utilized.

Yours sincerely,



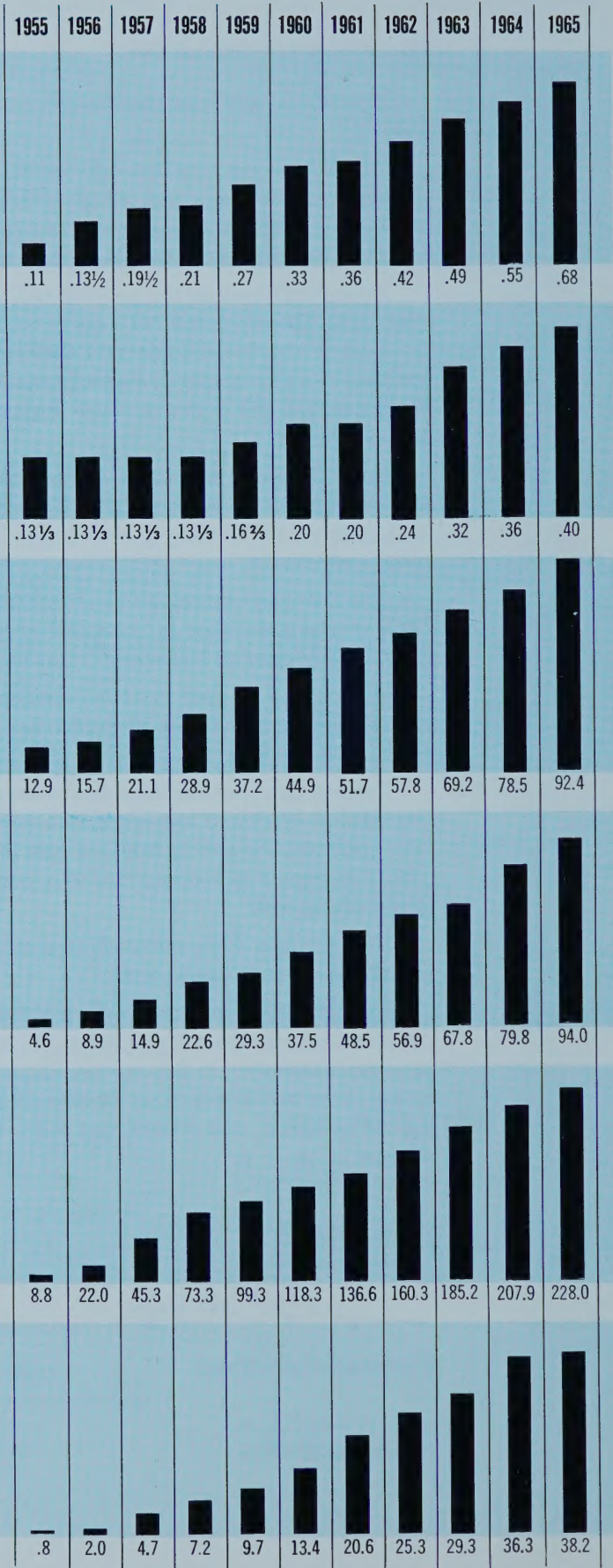
Chairman of the Board.

November 5, 1965

1965 Highlights

Earnings per
Common Share
\$.68

\$



Annual
Dividend Rate
per Common Share
\$.40

\$

Total
Operating Revenue
\$92,408,000

\$ MILLION

Total Volume
of Gas Sales
94,003,644 MCF

MILLION
MCF

Total House
Heating Installations
227,963

THOUSANDS

Industrial
Gas Sales
38,203,403 MCF

MILLION
MCF

Summary of Operations

The Area We Serve

The Consumers' Gas Company and its subsidiaries supply natural gas service to one of the fastest growing areas in North America. The heart of The Consumers' Gas System, Metropolitan Toronto and environs, had a population of 1¼ millions in 1953, 2 million in 1964, and is expected to reach 3 million in 1980. Other important centres in its service area include Canada's capital city of Ottawa and a highly industrialized, agricultural, and tourist region in the Niagara Peninsula.

The following summary of operations illustrates the extent to which your Company is aggressively participating in the growth of this area.

	<u>1965</u>	<u>1964</u>	<u>(first full year with natural gas 1955)</u>	<u>1965 increase (+) decrease (-) over 1955</u>
GAS SALES REVENUE (Consolidated)				
Residential	\$49,999,571	\$42,649,575	\$8,474,659	+ 490%
Commercial	16,202,581	12,133,160	1,929,168	+ 740
Industrial	22,664,474	20,715,263	2,008,025	+ 1029
GAS SALES—MCF (Consolidated)				
Residential	38,882,646	32,183,679	2,497,956	+ 1457
Commercial	16,917,595	11,323,456	628,866	+ 2590
Industrial	38,203,403	36,276,846	810,320	+ 4615
NUMBER OF CUSTOMERS (Consolidated)				
Residential	310,739	295,032	148,200	+ 110
Commercial	18,530	17,190	5,314	+ 249
Industrial	4,043	3,734	1,864	+ 117
AVERAGE USE PER RESIDENTIAL CUSTOMER—MCF (Consumers' Gas Only)	125.3	110.0	16.9	+ 641
POPULATION OF AREA SERVED	3,340,000	3,210,000	1,275,000	+ 162
AVERAGE USE PER CAPITA OF AREA SERVED—MCF	28.1	24.9	3.1	+ 806
COST TO CUSTOMER AVERAGE REVENUE PER MCF (Consumers' Gas Only)				
Residential	\$1.33	\$1.38	\$3.39	- 61
Commercial	\$.95	\$1.07	\$3.07	- 69
Industrial	\$.65	\$.63	\$2.48	- 74

Revenue

Gross gas sales revenue increased to \$88,867,000 this year from \$75,498,000 last year. This increase of \$13,369,000 is the largest annual increase ever achieved by the Company. The weather, which during the current year was 3 percent colder than the average of the past 10 years and 6 percent colder than 1963-64 season, accounts for approximately 15 percent of the increase over last year, with the balance as a result of new customers. Natural gas delivered to customers is now stabilized by the transmission company at approximately 1005 British Thermal Units per cubic foot, which in prior years has varied from month to month and has been as high as 1050 BTU per cubic foot.

Strong competition from the oil, coal, and electrical industries continues to require intensive sales efforts on the part of employees and shareholders alike.

Residential Sales The revenue from residential sales increased to \$50,000,000 from \$42,650,000 last year. Average annual use per residential customer increased to 125.3 MCF this year from 110.0 MCF last year. The colder weather accounts for nearly half of this increased usage and much of the remainder is a result of the use of a growing number of gas burning appliances in the average home.

The Company connected 16,000 residential customers this year compared with 20,000 last year. The building of apartment houses and multiple dwelling type units increased in the Company's service area this year and most of these customers are considered as being in the commercial sales category.

Commercial Sales The revenue from commercial sales increased by \$4,069,000 or 33 percent over last year. This additional revenue is almost twice any previous year's increase and reflects the addition of approximately 15,000 suites in apartment houses alone.

Numerous government establishments have converted to natural gas including the largest central heating plant in Ottawa which will heat Parliament Hill and many large government office buildings. As well as increasing efficiency in heating operations, the reduction in air pollution is important.

Industrial Sales Sales of gas to industries increased by \$1,949,000 this year, a 9 percent increase over last year, primarily due to additional firm and seasonal firm sales which more than offset the curtailment of interruptible sales because of a colder than normal heating season.

Area Sales Provincial Gas Company Limited, and Grimsby Natural Gas Company Limited are your Company's two subsidiaries serving the Niagara Peninsula area. Both companies show continued satisfactory growth. In addition to new residential and commercial gas sales, volumes of gas sold to industries have shown a steady increase over the past years. Provincial Gas has completed contractual arrangements with Cyanamid of Canada, Ltd. for a major additional supply which will result in one of the largest sales of gas to a single customer in Canada.

In the Province of Quebec, Société Gazifère de Hull, Inc. showed good increases in all categories of customers and MCF sales which resulted in an overall 16 percent increase in sales revenue over 1964. A contract was signed to supply the first major shopping centre in the Hull area, a 33-store complex owned by M. Loeb, Limited, with gas usage commencing in October 1965.

Your Company's wholly-owned subsidiary in northern New York State, St. Lawrence Gas Company, Inc. continues its growth in sales toward profitable operations after the normal, initial losses during the build up period. Customers as at September 30th, 1965 total 5,447. New large volume additions include the new campus of the Agricultural and Technical College at Canton and the new Ogdensburg Housing Authority building. The Aluminum Company of America, an existing customer, doubled its purchase of firm gas.

Other Operating Revenue Income from rental appliances, particularly water heaters, increased approximately 30 percent this year over last year. Rented appliances are forming an ever growing percentage of new installations in the energy market and extend profit opportunities beyond the supply of fuel itself.

Gas Supply and Storage The cost of purchasing and processing through storage the volumes of gas required to meet our expanding market requirements continues to amount to approximately two-thirds of the Company's total operation and maintenance expense. We continue to emphasize our efforts to obtain the most economic supply of gas.

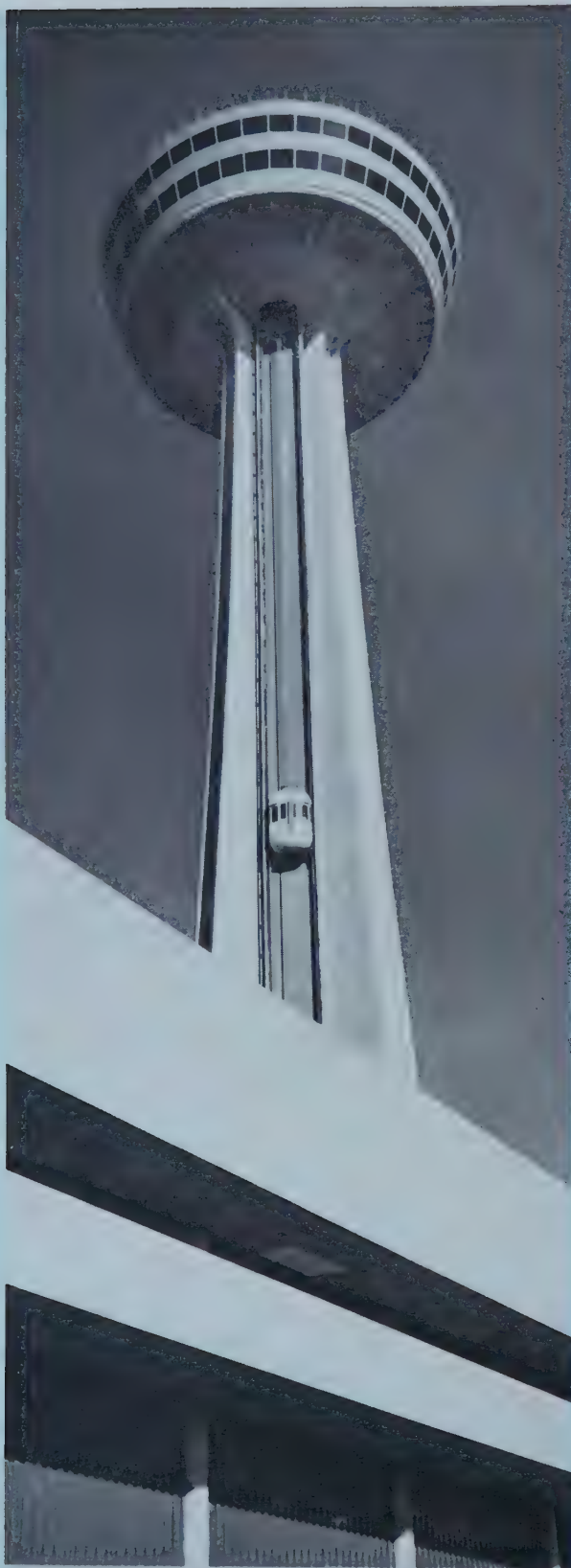
Below—PARK TOWERS, a de luxe high-rise apartment development in the Bathurst-St. Clair district, Toronto, commands a view of the Metropolitan area. Natural gas is used for heating and water heating throughout the buildings.



Below—One of many new motor hotels built in Metro Toronto uses natural gas for heating, water heating, cooking and pool heating.

Above—This recent aerial photograph of Toronto dramatically illustrates the building activity which is changing the city's skyline and exerting such an important influence on sales of natural gas.





The central heating plant in Ottawa serving many important government buildings, including the Parliament Buildings themselves, is now using natural gas.



TECUMSEH GAS STORAGE LIMITED facilities, play an important role in providing a steady supply of natural gas to Consumers' Gas customers throughout the year.

SKYLON Observatory offers a thrilling panorama of Niagara Falls and the historical Niagara frontier. The revolving restaurant atop this unique building uses natural gas for cooking, and the tower complex uses natural gas for heating, water heating, and air conditioning.

Your Company is presently purchasing the major part of its gas requirements from Trans-Canada Pipe Lines Limited. The proposal of Trans-Canada Pipe Lines Limited to construct, in partnership with American Natural Gas Company, a new large diameter pipe line, through the United States, from Emerson, Manitoba to Sarnia, Ontario is of interest to your Company, and negotiations for additional volumes of gas to be delivered via this line are presently in progress.

The Company is confident that additional gas will be available as required to supply its foreseeable needs for system growth.

The rate structure under which most of the Company's gas is purchased results in lowest unit cost when such purchases are uniform throughout the year. The availability and use of underground storage facilities in Southwestern Ontario makes it possible to achieve uniform purchases through injection to storage during the summer months and withdrawal from storage during the periods of high demand in the winter months. Gas is stored under long term agreements in fields owned by Union Gas Company of Canada, Limited and Tecumseh Gas Storage Limited. Tecumseh is owned and operated jointly by your Company and Imperial Oil Limited and is in its second year of successful operation. All volumes of gas injected and withdrawn under these agreements are transported through the facilities of the Union Gas Company. During the 1965 summer injection period, approximately 9 billion cubic feet of gas were stored with Tecumseh and approximately 7 billion cubic feet were stored with Union. Of the 490 million cubic feet required to supply our maximum day's sendout during the past winter season, 221 million cubic feet were obtained from these underground storage facilities.

A small underground storage pool in the Niagara Peninsula is being developed which will be of value locally because of its close proximity to our market area. A geological exploration programme is under way in Eastern Ontario in an attempt to locate underground reservoirs suitable for production and/or storage of natural gas.

The Company is also participating in an exploration programme for production of natural gas and oil in Southwestern Ontario with Canadian Delhi Oil Ltd., and in another with Home Oil Company Limited in Alberta.

Service, Sales and Other Costs

The Company has continued its policy of free service to its customers. The downward trend in costs of such service has continued during the past year.

In line with Company policy to provide localized and personalized service to our customers, additional service centres have been opened in Metropolitan Toronto, Brampton and the Niagara Peninsula. Offices are being planned for St. Catharines, and combined office and service centres for Ottawa and Toronto on sites already purchased.

Your Company continues research into the most effective use of computers for analysis of engineering and system expansion with the result that capital expenditures are being more effectively scheduled. The computer has also been of material assistance in providing information for rate design and sales programmes, and for reducing, this year, uncollectible accounts.

During the past year, we have supplied technical consulting services on a fee basis, to certain gas distributors in the United Kingdom and Europe. The vast discoveries of natural gas in the North Sea area have stimulated considerable activity in the European gas industry. Because of our experience of the last 10 years, we are in a position to advise others on change-over to natural gas and the application of computers in efficient use of existing pipe line systems. In addition to being profitable to us, this experience will be valuable to our men in their continued development for management.

Income Taxes

The substantially larger income tax provision this year of \$3,668,000 compared with \$907,000 last year, is due to the larger taxable income and in small part to two additional factors: first, our subsidiaries, Provincial Gas Company Limited and Grimsby Natural Gas Company Limited, have now fully used up their



The new Provincial Gas Service Centre at St. Catharines.

loss-carry-forward provisions and provisions for taxes must now be made for these companies; second, accumulated deductions available last year for exploration and development expenses are not available to the same extent this year. Your attention is directed to Note 8 forming part of the financial statements.

With the recently announced intention of the Federal Government to rebate to the provinces all but 5 percent of corporate income taxes received from gas and electric utilities, your Company has unconditionally stated its intention to refund to our customers, by means of further rate reductions, all such rebates received from the Provincial Government. Only by this action can fair tax treatment be accorded gas utility customers so long as competitive electric bills include no corporate income taxes.

Earnings and Dividends on Common Shares

Earnings available for common shareholders are \$10,755,000 or 68¢ per share compared with 55¢ per share last year, an increase of 24 percent. This year's earnings are twice those of 5 years ago when 33¢ per share was earned and continue the pattern of consecutive annual increases of the past ten years.

Dividends were increased to 10¢ quarterly from 9¢ commencing with the April 1st, 1965 payment; the sixth increase in the last seven years.

Dividends have been paid continuously on common stock for 117 years.

Property, Plant, Equipment, and Investments

Expenditures on property, plant and equipment including appliances for rental for the year ended September 30th, 1965 amounted to \$20,000,000 compared with \$25,000,000 last year. Most of the decrease occurred in the expenditures on mains, services, regulators and meters and is largely the result of the increasing trend to multiple family dwelling units commented upon elsewhere in this report. Purchases of appliances for rental, principally water heaters, amounted to approximately \$6,000,000.

Profits on sales of land, previously acquired for use in your Company's gas operations but now no longer needed for current or future operations, in the amount of \$809,000, occurred during the year. Because of the significance of the amounts involved and their non-recurring nature, your Company has followed the policy of accounting for the excess of net sale price over book value on such sales through the Statement of Retained Earnings rather than recording profits from such sales as income of the year.

The increase in mortgages receivable reflects settlement arrangements in connection with sales of land mentioned above as well as new investments under long term agreements. Mortgage loans have been a most successful means of promoting gas heating. It has been our policy to fully provide each year against possible losses therefrom.

The current undepreciated replacement value of the Company's physical properties, based on independent studies, is approximately \$43,000,000 higher than the cost or redetermined cost figures shown in the consolidated statements

of the Company. The observed depreciation of the Company's pipeline system, based upon preliminary independent studies, is considerably less than the depreciation recorded on the consolidated statements of the Company. The indicated service life of the pipeline system now appears to be considerably longer than that previously anticipated.

Financial and Share Ownership

The Company borrowed approximately \$36,000,000 during the year ended September 30th, 1965 by means of two security issues.

In February 1965, the Company borrowed \$15,000,000 (U.S.), by private placement in the United States of 4.85% First Mortgage Sinking Fund Bonds, Series "D", maturing February 15, 1985. The proceeds of \$16,102,188 (Cdn.) were used to reduce short term indebtedness. The potential saving in interest costs was substantial enough to encourage borrowing in the United States, the first time in the Company's history that financing has been accomplished outside of Canada other than for St. Lawrence Gas Company, Inc.

In May 1965, a \$20,000,000, 5½% Debenture issue, maturing May 15, 1985, was sold to the general public. Proceeds were used to reduce short term indebtedness and for general corporate purposes.

In March 1965 and in April, 1965, meetings of the bondholders and debentureholders were held, respectively, at which the Bond Trust Deed and Debenture Trust Indenture, were modernized. The changes made were for the purpose of increasing the Company's operating efficiency and did not affect interest payments or terms of securities outstanding.

The number of shareholders holding Company common shares continues to increase. In September, 1965, there were 21,589 shareholders compared with 18,886 in September 1964. Of these, 97 percent are Canadian residents.

Debt-equity makeup at September 30, 1965 is 52% Funded Debt, 6% Preferred Stock and 42% Common Equity.

Advisory Services

Subject to the control of the Board of Directors, Stone & Webster Canada Limited, with 76 years of experience in public utility operations, continues to give consulting and advisory services to the Company.

Management and Staff

The following changes in the Company organization took place during the year.

Mr. John M. Gifford was appointed Vice-President—Eastern Area, with headquarters in Ottawa, and Mr. George W. Carpenter was appointed Vice-President and General Superintendent of Gas Supply.

With the proliferation of governmental regulations, codes and approvals applicable to our wide spread operations, it has become necessary to co-ordinate all through one senior official. Mr. John A. Spence, formerly Manager of the Company's Ottawa area, was appointed Manager—Approvals and Codes.

Company officials and representatives of employee groups have been reviewing in detail the integration of the Company Pension Plan with the Canada Pension Plan to become effective January 1st, 1966.

During the year, three-year contracts were signed with Local 513 of the I.C.W.U. and with Local 517 of the United Electrical, Radio and Machine Workers of America representing Consumers' clerical employees and Provincial Gas hourly paid employees respectively. Negotiations are continuing with Local 161 of the I.C.W.U. representing Consumers' hourly paid employees whose contract expired on July 7, 1965 and with Local 672 of the I.C.W.U. representing employees in the Ottawa area whose contract expires November 16, 1965.



President and General Manager

Consolidated Balance Sheet

The CONSUMERS' GAS COMPANY and subsidiary companies

ASSETS

September 30

	<u>1965</u>	<u>1964</u>
PROPERTY, PLANT AND EQUIPMENT at cost or redetermined value (note 1)	\$290,785,000	\$273,644,000
Lands, structures, gas transmission and distribution systems, equipment, motor vehicles, unamortized franchise and permit costs, etc.		
Less depreciation	<u>33,919,000</u>	<u>30,295,000</u>
	<u>256,866,000</u>	<u>243,349,000</u>
 CURRENT ASSETS		
Cash	630,000	1,314,000
Cash held by trustee for bondholders (note 2)	236,000	—
Accounts receivable (including accounts receivable on merchandise finance plan, 1965 \$8,178,000, 1964 \$8,360,000) . . .	16,770,000	16,440,000
Materials and supplies at the lower of cost and market	2,166,000	2,098,000
Gas stored underground at cost	7,090,000	6,070,000
Prepaid expenses	<u>619,000</u>	<u>600,000</u>
	<u>27,511,000</u>	<u>26,522,000</u>
 SHARES IN TECUMSEH GAS STORAGE LIMITED at cost (Note 3)	<u>3,000,000</u>	<u>3,000,000</u>
 OTHER ASSETS AND DEFERRED CHARGES		
Mortgages receivable	8,741,000	6,754,000
Other assets	2,759,000	2,432,000
Unamortized debt discount and expense .	2,493,000	2,092,000
Other deferred charges	<u>478,000</u>	<u>685,000</u>
	<u>14,471,000</u>	<u>11,963,000</u>
 Approved on behalf of the Board: A. L. BISHOP, Director OAKAH L JONES, Director		
	<u>\$301,848,000</u>	<u>\$284,834,000</u>

See accompanying notes to financial statements.

LIABILITIES

September 30

	<u>1965</u>	<u>1964</u>
SHAREHOLDERS' EQUITY		
Capital stock		
Preference shares		
Authorized—250,000 shares of \$100 each issuable in series		
Issued (note 4)	\$ 18,000,000	\$ 18,000,000
Common shares (note 5)		
Authorized—25,000,000 shares without par value		
Issued —15,830,448 shares	52,950,000	52,778,000
To be issued—5,340 shares	35,000	35,000
Contributed surplus	2,977,000	2,977,000
Excess of net redetermined value of property, plant and equipment over depreciated book cost (note 1)	26,767,000	27,299,000
Retained earnings (note 6)	33,261,000	27,337,000
	<u>133,990,000</u>	<u>128,426,000</u>
LONG TERM DEBT		
Funded debt (note 7)	145,824,000	112,180,000
Mortgages payable	283,000	—
	<u>146,107,000</u>	<u>112,180,000</u>
CURRENT LIABILITIES		
Bank borrowings	2,980,000	18,028,000
Notes payable	—	12,400,000
Accounts payable and accrued	10,085,000	9,054,000
Accrued interest on long term debt	1,905,000	1,414,000
Taxes payable	4,070,000	542,000
Dividends payable October 1	1,827,000	1,666,000
Sinking fund requirements payable within one year	884,000	1,124,000
	<u>21,751,000</u>	<u>44,228,000</u>
	<u>\$301,848,000</u>	<u>\$284,834,000</u>

See accompanying notes to financial statements.

Consolidated Statement of Income

The CONSUMERS' GAS COMPANY and subsidiary companies

Year ended September 30

	<u>1965</u>	<u>1964</u>
REVENUE		
Gas sales	\$ 88,867,000	\$ 75,498,000
Other operating revenue (including appliance rentals)	3,541,000	2,991,000
Interest (including merchandise finance plan) and property rentals	1,686,000	1,798,000
Profit on sale of property (other than amounts included in retained earnings) and other income	33,000	108,000
	<u>94,127,000</u>	<u>80,395,000</u>
COSTS AND EXPENSES		
Operation and maintenance costs (including directors' fees, 1965 \$27,200, 1964 \$27,650).	62,185,000	54,727,000
Depreciation	6,340,000	5,781,000
Municipal and other taxes	2,278,000	2,129,000
Interest on long term debt	6,930,000	5,932,000
Other interest	880,000	1,152,000
Amortization of debt discount and expense	101,000	143,000
Other expenses	15,000	20,000
	<u>78,729,000</u>	<u>69,884,000</u>
Income before income taxes	15,398,000	10,511,000
Income taxes (note 8)	3,668,000	907,000
NET INCOME	<u>11,730,000</u>	<u>9,604,000</u>
Dividends on preference shares	975,000	943,000
Earnings on common shares	<u>\$ 10,755,000</u>	<u>\$ 8,661,000</u>
Dividends on common shares (1965— 39 cents, 1964—34 cents per share) . . .	6,172,000	5,369,000
Net income after dividends	<u>\$ 4,583,000</u>	<u>\$ 3,292,000</u>

See accompanying notes to financial statements.

Consolidated Statement of Retained Earnings

The CONSUMERS' GAS COMPANY and subsidiary companies

	Year ended September 30	
	1965	1964
Balance at beginning of year	\$ 27,337,000	\$ 23,513,000
Net Income after dividends	4,583,000	3,292,000
Amounts realized through depreciation provisions, transferred from excess of net re-determined value of property, plant and equipment over depreciated book cost . .	532,000	532,000
Profit on sale of surplus property	809,000	—
Balance at end of year	<u>\$ 33,261,000</u>	<u>\$ 27,337,000</u>

Consolidated Statement of Source and Use of Funds

Eleven year period since conversion to Natural Gas 1955 — 1965

	Year ended September 30	
	1965	1964
SOURCE OF FUNDS		
\$ 99,714,000 Addition to working capital from operations	\$ 18,098,000	\$ 15,528,000
156,850,000 Issue of funded debt	36,102,000	11,000,000
56,436,000 Issue of preference and common shares	172,000	3,118,000
3,867,000 Profit on property sales taken into retained earnings	809,000	—
(195,000) Miscellaneous items	490,000	82,000
<u>316,672,000</u>	<u>55,671,000</u>	<u>29,728,000</u>
USE OF FUNDS		
234,089,000 Net additions to property, plant and equipment	19,858,000	25,001,000
11,500,000 Investment in mortgages and other assets	2,314,000	1,336,000
3,000,000 Investment in shares of Tecumseh Gas Storage Limited	—	3,000,000
3,675,000 Expenditures on conversion to natural gas	—	—
19,266,000 Reduction in non-current portion of long term debt	2,458,000	2,013,000
4,826,000 Capital stock and funded debt issue costs	502,000	177,000
36,956,000 Dividends on preference and common shares	7,147,000	6,312,000
<u>313,312,000</u>	<u>32,279,000</u>	<u>37,839,000</u>
\$ 3,360,000 INCREASE (DECREASE) IN WORKING CAPITAL POSITION	<u>\$ 23,392,000</u>	<u>(\$ 8,111,000)</u>

See accompanying notes to financial statements.

Notes to Financial Statements

The CONSUMERS' GAS COMPANY and subsidiary companies

NOTE 1 PROPERTY, PLANT AND EQUIPMENT

Plant and equipment acquired subsequent to the companies' 1955 fiscal years and plant and equipment of Niagara Gas Transmission Limited are stated at cost. The remaining plant and equipment is stated at redetermined value based on reproduction cost, according to appraisals made by Stone & Webster Canada Limited at the end of the companies' 1955 fiscal years assuming construction as a whole in one continuous effort. Land is stated at cost.

The balance sheet deduction for depreciation is the observed depreciation reported in the appraisals at the end of the companies' 1955 fiscal years increased by the amount necessary to provide for gas plant determined to be no longer useful plus subsequent depreciation provisions based on the stated values of depreciable assets and less adjustments for disposals.

The increase in depreciated property, plant and equipment, resulting from the 1955 redetermination (less portions of such increase realized through disposals and depreciation provisions and adjustments for the years 1956 to 1965) has been included in shareholders' equity as excess of net redetermined value of property, plant and equipment over depreciated book costs.

NOTE 2 CASH HELD BY TRUSTEE FOR BONDHOLDERS

Under terms of the trust indenture, certain proceeds of the sale of bonded property are held by the trustee pending release on the addition of other property to specific pledge.

NOTE 3 SHARES IN TECUMSEH GAS STORAGE LIMITED

Tecumseh Gas Storage Limited, which operates natural gas storage pools, is owned 50% by the company and 50% by Imperial Oil Limited. The company's interest, amounting to \$74,000, in the net income of Tecumseh for its fiscal year ended March 31, 1965, during which it commenced operations, has not been reflected in the consolidated statements.

NOTE 4 PREFERENCE SHARES

	1965	1964
Issued		
50,000 shares 5½% cumulative Series A, redeemable at a premium reducing from 4% to 1%	\$ 5,000,000	\$ 5,000,000
100,000 shares 5½% cumulative Series B, redeemable at a premium reducing from 4% to 1%	10,000,000	10,000,000
30,000 shares 5% cumulative Series C, redeemable at a premium reducing from 5% to 1%	3,000,000	3,000,000
	<u>\$18,000,000</u>	<u>\$18,000,000</u>

A retirement fund for the purchase of each class of preference shares for cancellation is required to be maintained in the amounts of \$100,000 for the Series A shares, \$200,000 for the Series B shares, and, commencing on January 2, 1966, \$60,000 for the Series C shares (see note 6).

NOTE 5 COMMON SHARES

During the year, 27,550 common shares were issued for \$171,837 cash.

Under the terms of the Restricted Stock Option Plan approved by the common shareholders on November 19, 1956, 890,874 common shares have been set aside for purchase by key employees. At September 30, 1965, 705,966 shares had been issued under this plan and options are outstanding on 2,880 shares at \$5.25 per share, 25,740 shares at \$6.30 per share, 5,850 shares at \$7.00 per share, 2,000 shares at \$9.16875 per share and 28,900 shares at \$11.1375 per share, for a total of 65,370 shares. The last of these options expires on September 14, 1970. A total of 88 employees hold options under the Restricted Stock Option Plan.

The company is committed to issue 5,340 common shares in partial consideration for the shares of a subsidiary company, upon the subsidiary company obtaining a specified number of customers.

NOTE 6 RETAINED EARNINGS

Retained earnings includes a special account in which has been set aside, in accordance with supplementary letters patent creating the preference shares, an amount of \$300,000 for the purchase of Series A and Series B preference shares for cancellation.

NOTE 7 FUNDED DEBT

	Maturity	Outstanding at Sept. 30 1965	1964
The Consumers' Gas Company			
First Mortgage Sinking Fund Bonds			
3¾% Series A	1974	\$ 7,160,000	\$ 7,420,000
5% Series B	1978	17,370,000	17,946,000
5½% Series C	1983	20,000,000	20,000,000
4.85% Series D (U.S. \$15,000,000)	1985	16,102,188	—
Sinking Fund Debentures			
4¼%	1974	5,654,000	5,961,500
4¾%	1976	7,934,000	8,573,500
5¾%	1977	5,198,000	5,377,000
6½%	1979	9,541,000	9,778,000
6%	1981	13,673,000	14,000,000
5½%	1982	9,828,000	10,000,000
5¾%	1984	11,000,000	11,000,000
5%	1985	20,000,000	—
St. Lawrence Gas Company, Inc.			
First Mortgage Sinking Fund Bonds			
5¼% (U.S. \$3,000,000)	1988	3,248,400	3,248,400
		<u>146,708,588</u>	<u>113,304,400</u>
Less balance of sinking fund requirements payable within one year, included in current liabilities		884,000	1,124,000
		<u>\$145,824,588</u>	<u>\$112,180,400</u>

Aggregate sinking fund instalments due on the presently outstanding funded debt, amount to approximately \$3,075,000 in 1967 and \$3,465,000 in 1968.

Notes to Financial Statements (Continued)

The CONSUMERS' GAS COMPANY and subsidiary companies

NOTE 8 INCOME TAXES

As a result of claiming for tax purposes (i) certain interest and overhead amounts and exploration and development costs treated in the accounts as cost of depreciable assets and (ii) capital cost allowances, which together exceed the amount of depreciation charged to income in the accounts, income taxes have been reduced by the following amounts:

	Year ended September 30, 1965	Accumulated amount to September 30, 1965
Income tax reductions in respect of amounts referred to in (i) above, in excess of recorded depreciation applicable thereto	\$ 340,000	\$ 5,750,000
Income tax reductions in respect of excess of capital cost allowances over the remainder of recorded depreciation	3,560,000	19,310,000

The accumulated amount to September 30, 1965 of such income tax reductions has been adjusted to reflect income tax assessments received to date. Under present tax rules and present rates of recording depreciation, income tax reductions arising from claiming capital cost allowances in excess of recorded depreciation will occur for at least 13 years if there are no changes whatsoever in the companies' present depreciable assets and for an extended period beyond 13 years if the companies continue to expand their facilities and services.

Auditors' Report

MONTREAL OTTAWA
TORONTO CHATHAM
WINNIPEG CALGARY
VANCOUVER

GUNN, ROBERTS AND CO.
CHARTERED ACCOUNTANTS

TO THE SHAREHOLDERS OF
THE CONSUMERS' GAS COMPANY:

We have examined the consolidated balance sheet of The Consumers' Gas Company and subsidiary companies as at September 30, 1965 and the consolidated statements of income and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and consolidated statements of income and retained earnings present fairly the financial position of the companies as at September 30, 1965 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We have also examined the accompanying consolidated statement of source and use of funds for the year ended September 30, 1965. In our opinion the statement presents fairly the sources and uses of funds for the year.

Gunn, Roberts and Co.

TORONTO, CANADA
NOVEMBER 8, 1965.

Chartered Accountants.

Statistical Information

NOTE 1

	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955
Gas Sales											
Residential	\$49,999,571	\$42,649,575	\$39,694,378	\$33,457,232	\$30,681,062	\$28,138,250	\$24,012,050	\$17,813,574	\$13,329,789	\$10,109,303	\$ 8,474,659
Commercial	16,202,581	12,133,160	9,952,656	8,158,151	7,173,416	5,796,789	4,304,337	3,388,918	2,649,462	2,147,166	1,929,168
Industrial	22,664,474	20,715,263	17,227,592	14,526,784	12,409,570	9,479,569	7,914,562	6,254,566	4,414,030	2,663,282	2,008,025
Other Utilities	—	—	—	—	—	—	92,156	1,070,063	514,890	616,976	376,725
TOTAL GAS SALES	88,866,626	75,497,998	66,874,626	56,142,167	50,264,048	43,414,608	36,323,105	28,527,121	20,908,171	15,536,727	12,788,577
Other Operating Revenue	3,540,708	2,991,073	2,333,163	1,638,655	1,443,636	1,438,280	835,542	344,779	161,269	155,182	127,804
Interest (including merchandise finance plans) and property rentals	1,685,554	1,797,888	1,218,965	1,089,641	1,378,730	1,040,728	1,251,492	981,046	514,936	266,818	161,371
Profit on sale of property and other income	34,744	107,915	332,879	376,823	29,849	142,525	103,406	83,766	35,533	57,576	52,325
	94,127,632	80,394,874	70,759,633	59,247,286	53,116,263	46,036,141	38,513,545	29,936,712	21,619,909	16,016,303	13,130,077
Operation and Maintenance Costs	62,185,455	54,726,535	48,861,328	41,003,320	36,894,818	31,121,885	25,989,224	21,120,229	14,432,188	11,038,850	8,883,761
Amortization of natural gas conversion expense	—	—	—	901,798	249,054	248,506	242,381	229,369	215,555	210,984	87,951
Depreciation	6,340,559	5,780,839	4,576,698	3,710,622	3,276,433	2,880,914	2,318,595	1,832,147	1,510,067	1,298,166	766,662
Municipal and other taxes	2,277,667	2,128,649	1,786,135	1,360,180	1,553,871	1,535,920	1,136,251	1,071,284	895,955	797,476	748,126
Interest on long term debt	6,930,196	5,932,484	5,085,286	4,005,254	3,575,076	2,947,273	2,452,406	2,122,636	1,356,524	808,076	582,619
Amortization of debt discount and expenses	100,604	143,005	126,907	109,415	105,873	96,785	89,648	77,658	52,535	37,472	27,123
Other Expenses (including other interest)	894,996	1,172,041	374,332	164,186	459,987	1,090,588	627,995	297,116	234,987	173,235	19,378
	78,729,477	69,883,553	60,810,686	51,254,775	46,115,112	39,921,871	32,856,500	26,750,439	18,697,811	14,364,259	11,115,620
Income before incomes taxes	15,398,155	10,511,321	9,948,947	7,992,511	7,001,151	6,114,270	5,657,045	3,186,273	2,922,098	1,652,044	2,014,457
INCOME TAXES	3,668,231	906,817	1,387,000	605,000	671,100	987,000	1,600,000	587,650	943,157	820,739	900,000
NET INCOME	11,729,924	\$ 9,604,504	\$ 8,561,947	\$ 7,387,511	\$ 6,330,051	\$ 5,127,270	\$ 4,057,045	\$ 2,598,623	\$ 1,978,941	\$ 831,305	\$ 1,114,457
NUMBER OF ACTIVE CUSTOMERS (year end)											
Residential (Note 2)	310,739	295,032	275,178	254,020	240,188	230,673	221,535	211,773	182,910	170,946	148,200
Commercial	18,530	17,190	15,876	14,348	13,334	12,270	10,770	9,646	7,311	6,240	5,314
Industrial	4,043	3,734	3,561	3,101	2,978	2,855	2,611	2,507	2,079	1,947	1,864
TOTAL	333,312	315,956	294,615	271,469	256,500	245,798	234,916	223,926	192,300	179,133	155,378
NUMBER OF SHAREHOLDERS											
Common	21,589	18,886	14,908	13,812	12,933	9,142	8,532	9,031	7,896	7,433	7,025
Preferred	2,350	2,401	2,411	2,449	2,478	2,481	2,587	851	884	—	—
NUMBER OF EMPLOYEES	2,081	2,150	2,288	2,126	2,042	2,088	2,151	1,987	1,698	1,510	1,219

	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955
GAS SUPPLY—MCF (Note 3)											
Natural gas purchased	95,720,808	82,302,747	72,355,506	58,400,954	49,929,949	39,350,670	31,369,280	26,030,826	15,333,384	9,431,736	4,327,340
Natural gas produced	69,741	46,263	24,882	111,239	120,833	110,645	151,805	99,781	84,500	39,677	—
Coal and Water gas produced	—	—	—	—	—	—	—	59,139	45,218	—	762,545
Propane-air gas produced	—	—	—	—	74,281	53,171	30,067	43,145	25,224	638	27,321
TOTAL GAS SUPPLY	95,790,549	82,349,010	72,380,388	58,512,193	50,125,063	39,514,486	31,551,152	26,232,891	15,488,326	9,472,051	5,117,206

GAS DELIVERIES—MCF (Note 3)											
Sales to Customers											
Residential	38,882,646	32,183,679	29,841,991	24,729,910	22,186,572	19,792,414	16,500,480	11,433,033	7,767,120	4,745,652	2,497,956
Commercial	16,917,595	11,323,456	8,703,779	6,846,802	5,784,517	4,345,792	2,899,394	1,992,883	1,421,208	948,584	628,866
Industrial	38,203,403	36,276,846	29,272,772	25,336,335	20,574,307	13,404,438	9,702,777	7,234,588	4,735,888	2,010,429	810,320
Other Utilities	—	—	—	—	—	—	187,589	2,020,831	978,748	1,249,953	714,961
TOTAL SALES	94,003,644	79,783,981	67,818,542	56,913,047	48,545,396	37,542,644	29,290,240	22,681,335	14,902,964	8,954,618	4,652,103
Gas into storage	17,096,301	13,972,464	13,314,061	8,900,264	7,013,673	5,274,731	5,072,859	3,705,861	153,518	190,053	—
Gas out of storage	(16,067,346)	(11,658,440)	(9,558,155)	(8,059,143)	(5,802,426)	(3,786,188)	(3,410,423)	(965,578)	(112,002)	(20,794)	—
Used by company	175,166	159,190	154,801	131,572	130,058	111,504	85,202	70,242	48,554	33,909	5,375
Unbilled and unaccounted for	582,784	91,815	651,139	626,453	238,362	371,795	513,274	741,031	495,292	314,265	459,728
TOTAL GAS DELIVERIES	95,790,549	82,349,010	72,380,388	58,512,193	50,125,063	39,514,486	31,551,152	26,232,891	15,488,326	9,472,051	5,117,206

MAXIMUM DAILY SENDOUT— MCF (Consumers' Gas only)	382,643	325,090	281,955	237,512	197,985	155,483	138,552	102,577	60,453	32,268	20,109
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MAXIMUM DAILY SENDOUT— MCF (Consolidated)	489,659	416,557	370,813	305,644	262,262	205,273	177,677	136,552	84,033	39,039	26,992
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MINIMUM DAILY SENDOUT— MCF (Consolidated)	94,827	84,437	69,333	63,113	47,212	40,436	26,116	25,468	18,391	12,367	6,477
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DEGREE DAY DEFICIENCY (Note 4)	6,965	6,556	7,222	6,700	6,950	6,862	7,091	6,639	6,464	7,295	6,349
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AVERAGE USE PER RESIDENTIAL CUSTOMER—MCF (Consumers' Gas Only)	125.3	110.0	110.8	99.6	91.8	84.8	73.4	55.1	39.9	28.2	16.9
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COST TO CUSTOMERS—AVERAGE REVENUE PER MCF (Consumers' Gas only)											
Residential	\$ 1.33	\$ 1.38	\$ 1.39	\$ 1.42	\$ 1.46	\$ 1.51	\$ 1.56	\$ 1.69	\$ 1.91	\$ 2.30	\$ 3.39
Commercial	\$.95	\$ 1.07	\$ 1.16	\$ 1.22	\$ 1.28	\$ 1.40	\$ 1.62	\$ 1.82	\$ 1.97	\$ 2.37	\$ 3.07
Industrial	\$.65	\$.63	\$.65	\$.65	\$.73	\$.81	\$.88	\$.94	\$ 1.03	\$ 1.34	\$ 2.48

MILES OF MAINS IN Use (equivalent 3")	10,333	10,170	9,693	9,231	8,426	7,864	7,252	6,678	5,073	4,082	2,760
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AREA SERVED (Square Miles)	1,516	1,503	1,484	1,363	1,204	1,069	1,019	790	460	378	179
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Note 1: Figures shown are on a consolidated basis unless otherwise indicated.
Note 2: 1964 is corrected from previously reported figure of 296,736
Note 3: Natural gas or equivalent.
Note 4: Degree day deficiency figures given are those for Toronto area. The deficiency is a measure of coldness during the heating season and is calculated by adding together the total number of degrees by which the daily mean fell below 65° on those days when it did so.

Corporate Information

GENERAL OFFICE

19 Toronto Street, Toronto, Ontario

REGISTRAR, TRANSFER AND DIVIDEND DISBURSING AGENT

Eastern & Chartered Trust Company
1901 Yonge St., Toronto 7

REGISTRAR AND TRANSFER AGENTS

Eastern & Chartered Trust Company
625 Dorchester Blvd. W., Montreal
Canada Permanent Trust Company
Pender & Seymour Sts., Vancouver
Bankers Trust Company
16 Wall Street, New York

TRUSTEE

3¾% FIRST MORTGAGE SINKING FUND BONDS, SERIES A
5% FIRST MORTGAGE SINKING FUND BONDS, SERIES B
5½% FIRST MORTGAGE SINKING FUND BONDS, SERIES C
4.85% FIRST MORTGAGE SINKING FUND BONDS, SERIES D (U.S. Funds)
Canada Permanent Trust Company
253 Bay Street, Toronto

TRUSTEE

4¼%, 4¾%, 5½%, 5⅞%, 5¾%, 6% AND 6½% SINKING FUND DEBENTURES
Crown Trust Company
302 Bay Street, Toronto



This is Your Company

AGAIN THIS YEAR, we extend an invitation to you to take full advantage of the benefits offered by natural gas. In addition to the many uses familiar to you, developments in the gas industry and advancements in equipment are being made constantly, resulting in new products, new applications, and improved performance for customers.

As a shareholder, you will want to know about these developments and what they can mean to you.

For your convenience, to obtain this information for yourself or your friends, simply use the postage paid reply card below, directed to my personal attention.

Yours sincerely,

President and General Manager.

DETACH AND MAIL—POSTAGE FREE

Dear Mr. Jones:

I am interested in having the latest information about natural gas and how I can use it to advantage . . .

- ☐ In my home
- ☐ In my business
- ☐ Please mail information
- ☐ Have representative of the Company contact me.

NAME

ADDRESS

.

CITY

PROVINCE

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Natural Gas Heating: silent, spotless, low-cost, dependable

Install gas for modern living

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GAS HEAT!

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The Consumers' Gas Company
19 Toronto Street
Toronto 1, Ontario

ATT. MR. O. L JONES, PRESIDENT

